Coimisiún na Scrúduithe Stáit

State Examinations Commission

Leaving Certificate 2019

Marking Scheme

Accounting

Ordinary Level

Note to teachers and students on the use of published marking schemes

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Marking schemes are working documents. While a draft marking scheme is prepared in advance of the examination, the scheme is not finalised until examiners have applied it to candidates' work and the feedback from all examiners has been collated and considered in light of the full range of responses of candidates, the overall level of difficulty of the examination and the need to maintain consistency in standards from year to year. This published document contains the finalised scheme, as it was applied to all candidates' work.

In the case of marking schemes that include model solutions or answers, it should be noted that these are not intended to be exhaustive. Variations and alternatives may also be acceptable. Examiners must consider all answers on their merits, and will have consulted with their Advising Examiners when in doubt.

Future Marking Schemes

Assumptions about future marking schemes on the basis of past schemes should be avoided. While the underlying assessment principles remain the same, the details of the marking of a particular type of question may change in the context of the contribution of that question to the overall examination in a given year. The Chief Examiner in any given year has the responsibility to determine how best to ensure the fair and accurate assessment of candidates' work and to ensure consistency in the standard of the assessment from year to year. Accordingly, aspects of the structure, detail and application of the marking scheme for a particular examination are subject to change from one year to the next without notice.

1. Final Accounts of a Limited Company **80**

Trading Profit and Loss Account of Green Ltd for the year ended 31/12/2018 [1]

		€	€		€	
Sales					880,000	[4]
Less sales returns					18,200	[4]
					861,800	
Less: Cost of sales						
Opening stock			91,500	[4]		
Purchases			470,000	[4]		
			561,500			
Closing stock			54,500	[4]		
Cost of sales					507,000	
Gross profit					354,800	[1]
Less Expenses						
Administration [1]						
Insurance		9,300 [5]				
Rent and rates		22,100 [3]				
Light and heat		12,100 [3]				
Directors' fees		36,400 [3]				
Stationery		4,800 [6]				
Dep. of buildings	13,200 [4]					
Dep. of office equipment	6,750 [4]	19,950	104,650			
Selling and Distribution [1]						
Advertising		9,700 [5]				
Increase in BDP		380 [6]				
Dep. of delivery vans		7,000 [4]	17,080		121,730	
					233,070	
Add Operating Income						
Commission received					6,100	[3]
Operating profit					239,170	
Less debenture interest					9,000	[3]
Net profit for the year					230,170	
Less taxation					16,000	[3]
					214,170	
Add profit and loss balance 01/01/2018					62,900	[3]
Profit and loss balance at 31/12/2018					277,070	[1]

Balance Sheet of Green Ltd as at 31/12/2018 [1]

Intangible Assets	€		€		€	
Patents					80,000	[2]
Fixed Assets	**Cost**		**Depreciation**		**N.B.V.**	
Buildings	660,000	[1]	46,200	[2]	613,800	[1]
Office equipment	75,000	[1]	14,250	[2]	60,750	[1]
Delivery vans	70,000	[1]	7,000	[1]	63,000	[1]
	805,000		67,450		737,550	
					817,550	
Current Assets						
Closing stock	54,500	[2]				
Stock of stationery	900	[2]	55,400			
Debtors	73,000	[2]				
Less bad debt provision	4,380	[2]	68,620			
Insurance prepaid			3,100	[2]		
			127,120			
Creditors: **amounts falling due within 1 year**						
Creditors	82,000	[2]				
VAT	6,000	[2]				
Bank	8,500	[2]				
Debenture interest due	3,800	[2]				
Advertising due	1,300	[2]				
Corporation tax	16,000	[2]	117,600			
					9,520	
					827,070	
Financed by						
Creditors: **amounts falling due after 1 year**						
6% Debentures					120,000	[2]
Capital and Reserves	**Authorised**		**Issued**			
Ordinary share capital	950,000	[1]	430,000	[1]		
Profit and loss balance 31/12/2018			277,070		707,070	
Capital Employed					827,070	

2. Incomplete Records – Net Worth

[30]

(a) Statement of Net Worth/Capital 01/01/2018

Assets	€		€	
Premises	520,000	[3]		
Furniture and equipment (48,200 - 8,700)	39,500	[6]		
Motor vehicles	49,000	[3]		
Stock	62,300	[3]		
Debtors	21,200	[3]		
Bank	5,600	[3]		
Insurance prepaid	1,200	[3]	698,800	
Liabilities				
Creditors	18,200	[2]		
Expenses due	2,800	[2]	21,000	
Capital/net worth 01/01/2018			677,800	[2]

[30]

(b) Statement of Profit/Loss for year ended 31/12/2018

	€		€	
Assets			860,000	[6]
Less Depreciation furniture and equipment	12,050	[3]		
Depreciation motor vehicles	3,920	[3]	(15,970)	
			844,030	
Less Liabilities				
Liabilities	78,000	[3]		
Expenses due	920	[3]	(78,920)	
Net worth 31/12/2018			765,110	
Less net worth 01/01/2018			(677,800)	[2]
Apparent profit for the year			87,310	
Less capital introduced			(12,000)	[3]
			75,310	
Add drawings				
Repairs	7,100	[3]		
Stock	4,200	[3]	11,300	
Net profit for year 2018			86,610	[1]

3. Depreciation and Revaluation of Fixed Assets

(a) **[15]**

Buildings Account

		€				€	
01/01/17	Balance b/d	780,000	[5]	01/07/17	Disposal	110,000	[2]
01/06/17	Bank	140,000	[2]	31/12/17	Balance c/d	810,000	
		920,000				920,000	
01/01/18	Balance b/d	810,000		31/12/18	Balance c/d	900,000	[1]
01/01/18	Revaluation	90,000	[4]				
		900,000				900,000	
01/01/19	Balance b/d	900,000	[1]				

(b) **[20]**

Provision for Depreciation on Buildings Account

		€				€	
01/07/17	Disposal	60,000	[3]	01/01/17	Balance b/d	62,000	[4]
31/12/17	Balance c/d	36,000	[1]	31/12/17	P & L dep.	34,000	[4]
		96,000				96,000	
01/01/18	Revaluation	36,000	[3]	01/01/18	Balance b/d	36,000	
31/12/18	Balance c/d	45,000	[1]	31/12/18	P & L dep.	45,000	[3]
		81,000				81,000	
				01/01/19	Balance b/d	45,000	[1]

(c) **[15]**

Disposal of Buildings Account

		€				€	
01/07/17	Buildings	110,000	[4]	01/07/17	Bank	75,000	[4]
	Profit on disposal	25,000	[3]		Prov. for dep.	60,000	[4]
		135,000				135,000	

(d) **[10]**

Revaluation Reserve Account

		€				€	
				01/01/18	Buildings	90,000	[5]
				01/01/18	Prov. for dep.	36,000	[5]
						126,000	

4. Farm Accounts

(a) **[20]**

O'Rourke Family Capital 01/01/2018

Assets	€		€	
Land	900,000	[2]		
Farm buildings	360,000	[2]		
Machinery	144,000	[2]		
Stock of cattle	115,000	[2]		
Stock of sheep	28,000	[2]		
Bank	23,200	[2]	1,570,200	
Liabilities				
Wages due	1,100	[3]		
Electricity due	850	[3]	(1,950)	
Capital on 01/01/2018			1,568,250	[2]

(b) (i) **[20]**

Enterprise Analysis Account 'Cattle/Milk' for the year ended 31/12/2018

Income	€		€	
Sale of milk	94,000	[2]		
Sale of cattle	51,700	[1]		
Single farm payment	19,280	[2]		
Drawings of milk	1,300	[1]	166,280	
Less: **Cost of Sales**				
Stock 01/01/2018	115,000	[1]		
Purchases	42,350	[2]		
	157,350			
Less closing stock 31/12/2018	122,000	[1]	(35,350)	
			130,930	
Expenditure				
Fertiliser (13,800/2)	6,900	[2]		
Electricity (W1)	7,460	[3]		
Repairs (18,900/2)	9,450	[2]		
Wages (34,500 - 1,100/2)	16,700	[2]	(40,510)	
Profit			90,420	[1]

(W1) Electricity	15,300
Add due 31/12/2018	470
	15,770
Less due 01/01/2018	850
	14,920

[20]

(ii)

Enterprise Analysis Account 'Sheep' for the year ended 31/12/2018

Income	€		€	
Sale of wool	200	[2]		
Sale of lambs	32,600	[3]		
Single farm payment	4,820	[2]		
Drawings of lamb	650	[2]	38,270	
Less: **Cost of Sales**				
Stock 01/01/2018	28,000	[2]		
Purchases	6,600	[2]		
	34,600			
Less closing stock 31/12/2018	31,000	[2]	(3,600)	
			34,670	
Expenditure				
Fertiliser (13,800/2)	6,900	[1]		
Electricity (W1)	7,460	[1]		
Repairs (18,900/2)	9,450	[1]		
Wages (34,500 - 1,100/2)	16,700	[1]	(40,510)	
Loss			(5,840)	[1]

5. Interpretation of Accounts **[40]**

(a) (i) **Gross Profit Margin** [10]

$$\frac{\text{Gross profit}}{\text{sales}} \times \frac{100}{1}$$

$$\frac{305{,}000}{650{,}000} \times \frac{100}{1} = 46.92\%$$

(ii) **Acid Test Ratio** [12]

Current assets – closing stock : current liabilities

(88,000 – 30,000) : 33,000

= **1.76** : **1**

(iii) **Period of Credit given to Creditors** [10]

$$\frac{\text{Creditors}}{\text{Credit purchases}} \times \frac{365}{1}$$

$$\frac{33{,}000}{342{,}000} \times \frac{365}{1} = 35.22 \text{ days}$$

(iv) **Rate of Stock Turnover** [8]

$$\frac{\text{Cost of sales}}{\text{Average stock}}$$

Average stock

$$\frac{\text{Opening stock + closing stock}}{2} = \frac{33{,}000 + 30{,}000}{2} = 31{,}500$$

$$\frac{345{,}000}{31{,}500} = 10.95 \text{ times}$$

[40]

(b) (i) **Depreciation**:

This is the loss in value of a fixed asset during the year due to wear and tear or the passage of time. A business will decide a suitable percentage for the yearly charge. €50,000 depreciation in the above balance sheet.

[10]

(ii) **Shareholders Funds**: The amount of money that belongs to the shareholders in the business made up of:

Issued share capital	720,000
Retained profit	155,000
	875,000

[10]

(iii) **Intangible Assets**: These are fixed assets that have a value but you cannot see or touch. Examples are goodwill and patents.

[10]

(iv) **7% Debenture 2023/2024**: Debentures are long term loans. They will be repaid in full during the years 2023/2024. They carry a fixed annual rate of interest of 7%. Kennedy Ltd has a debenture of €100,000.

[10]

(c) **No**, Kennedy Ltd would not have difficulty as the acid test ratio is 1.76:1 which is greater than the ideal of 1:1. This means they have €1.76 available for every €1 they owe in the short term.

[10]

(d) (i) **Return on Capital Employed**:

$$\frac{\text{Net profit + interest}}{\text{Capital employed}} \times \frac{100}{1} = \frac{155{,}000 + 7{,}000}{975{,}000} \times \frac{100}{1} = 16.62\%$$

[10]

(ii) Return on capital employed has increased from 12% in 2017 to 16.62% in 2018. This is an increase of 4.62%. This is a good return, the business is profitable, and you would only get a return of about 2/3% from a bank or risk free investment.

6. Cash Flow Statement

[30]

(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	€	
Operating profit	135,000	[3]
Add depreciation	15,000	[6]
Increase in stock	(8,000)	[6]
Decrease in debtors	11,000	[6]
Decrease in creditors	(7,000)	[6]
Net cash inflow from operating activities	146,000	[3]

[65]

(b) Cash Flow Statement of McCabe Ltd for the year ended 31/12/2018

			€	
Operating Activities [3]				
Net cash inflow from operating activities			146,000	[6]
Return on Investment and Servicing of Finance [2]				
Interest paid			(19,000)	[8]
Taxation [2]				
Tax paid			(29,000)	[6]
Capital Expenditure and Financial Investment [2]				
Purchase of land/buildings			(150,000)	[6]
Equity Dividend paid [2]				
Dividends paid			(26,000)	[8]
Net cash inflow before liquid resources and financing			(78,000)	
Financing				
Issue of ordinary share capital	18,000	[6]		
Share premium	15,000	[6]		
	33,000			
Debentures	50,000	[6]	83,000	
Increase in cash			5,000	[2]

[5]

(c) Reconciliation of Net Cash Flow to movement in Net Debt

Increase in cash in the period	5,000	[1]
Debentures	(50,000)	[1]
Change in net debt	(45,000)	[1]
Net debt 01/01/2018	(190,000)	[1]
Net debt 31/12/2018	(235,000)	[1]

7. Club Accounts **[20]**

(a)

Accumulated Fund as on 01/01/2018

Assets	€		€	
Clubhouse	620,000	[2]		
Land	240,000	[2]		
Equipment	32,000	[2]		
Investments	60,000	[2]		
Bar stock	7,100	[2]		
Cash in hand	3,200	[2]	962,300	
Less Liabilities				
Bar creditors	3,600	[2]		
Subscriptions prepaid	1,800	[3]	5,400	
Accumulated fund 01/01/2018			956,900	[3]

[8]

(b)

Bar Trading Account for the year ended 31/12/2018

	€		€		€	
Bar sales					42,100	[2]
Less: Cost of sales						
Opening stock			7,100	[1]		
Purchases	26,900	[1]				
Add creditors 31/12/2018	2,300	[1]				
	29,200					
Less creditors 01/01/2018	3,600	[1]	25,600			
			32,700			
Closing stock			7,200	[1]		
Cost of sales					25,500	
Bar profit					16,600	[1]

(c) Income and Expenditure Account for the year ending 31/12/2018 **[34]**

Income	€		€	
Bar profit	16,600	[2]		
Subscriptions (72,700 + 1,800 + 2,100)	76,600	[7]		
Investment interest	1,800	[3]		
Annual sponsorship	14,000	[3]		
Lotto (63,000 – 38,000)	25,000	[4]	134,000	
Less Liabilities				
General expenses (23,800 + 3,100)	26,900	[4]		
Insurance	5,200	[2]		
Depreciation of clubhouse	18,600	[3]		
Depreciation of equipment	8,850	[4]	59,550	
Excess income over expenditure			74,450	[2]

(d) **[30]**

Balance Sheet of Callan Golf Club as on 31/12/2018

Fixed Assets	**Cost**		**Dep.**		**N.B.V**	
	€		€		€	
Clubhouse	620,000	[1]	18,600	[1]	601,400	[1]
Land	240,000	[1]			240,000	[1]
Equipment	35,400	[2]	8,850	[1]	26,550	[1]
	895,400		27,450		867,950	
Investments					60,000	[2]
					927,950	
Current Assets						
Bank	99,500	[3]				
Bar stock	7,200	[3]				
Subscriptions due	2,100	[3]	108,800			
Current Liabilities						
Bar creditors	2,300	[3]				
General expenses due	3,100	[3]	5,400			
Working capital					103,400	
Net worth					1,031,350	
Financed by						
Accumulated fund					956,900	[2]
Excess income					74,450	[2]
					1,031,350	

(e) **[8]**

- The closing balance in the receipts and payments account is the amount of money the club has at the end of the year, while the balance in the income/expenditure is the profit or loss for the year.

- The balance can be different because expenses due/prepaid are included in the income/expenditure account even though they are not yet paid and therefore not in the receipts and payments account.

8. Absorption Costing **[80]**

(a) Production Department: **[40]**

Fixed $\frac{40,000}{8,000}$ = €5 per hour [10]

Variable $\frac{16,000}{8,000}$ = €2 per hour [10]

Servicing Department:

Fixed $\frac{6,000}{4,000}$ = €1.50 per hour [10]

Variable $\frac{10,000}{4,000}$ = €2.50 per hour [10]

(b) Job No. 572 **[20]**

Direct materials	1,350.00
Direct labour	520.00
Production hours:	
Fixed (4 × 5)	20.00
Variable (4 × 2)	8.00
Servicing:	
Fixed (3 × 1.50)	4.50
Variable (3 × 2.50)	7.50
	1,910.00

(c) Selling Price of Job No. 572 **[10]**

Cost:	1,910.00
+15%	286.50
	2,196.50

(d) **[10]**

- To be able to calculate a selling price
- To see if it will be possible to make a profit producing the product.

9. Product Budgeting **[80]**

(a) Sales Budget **[14]**

	Superior Charger		Standard Charger	
Budgeted sales	5,400	[3]	2,800	[3]
Budgeted selling price	× €30	[3]	× €20	[3]
	€162,000	[1]	€56,000	[1]
Total sales = €218,000				

(b) Production Budget **[16]**

	Superior Charger		Standard Charger	
Budgeted sales	5,400	[2]	2,800	[2]
Add budgeted closing stock	570	[2]	420	[2]
	5,970		3,220	
Less budgeted opening stock	610	[2]	530	[2]
Budgeted production in units	5,360	[2]	2,690	[2]

(c) Material Usage Budget **[16]**

	Material A		Material B		
Superior Charger (5,360 × 5)	26,800	[3]	(5,360 × 4)	21,440	[3]
Standard Charger (2,690 × 3)	8,070	[3]	(2,690 × 2)	5,380	[3]
	34,870 kg	[2]		26,820 kg	[2]

(d) Materials Purchases Budget **[16]**

	Material A		Material B	
Budgeted usage	34,870	[1]	26,820	[1]
Add budgeted closing stock	280	[2]	320	[2]
	35,150		27,140	
Less budgeted opening stock	260	[2]	370	[2]
Budgeted production in units	34,890	[1]	26,770	[1]
Budgeted purchase price	× €6	[1]	× €4	[1]
	209,340	[1]	107,080	[1]

(e) Labour Budget **[10]**

	Superior Charger		**Standard Charger**	
Budgeted production	5,360	[1]	2,690	[1]
No of hours per unit	× 4	[1]	× 3	[1]
	21,440		8,070	
Labour rate per hour	× €12	[1]	× €12	[1]
	257,280	[1]	96,840	[1]
Total labour cost			€354,120	[2]

[8]

(f) 1. A labour budget is prepared in order to determine the total cost of labour for the year.
2. To control labour costs.

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